INTERNAL REVENUE SERVICE

IRS Fact Sheet

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# Deducting Travel, Entertainment and Gift Expenses

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The Internal Revenue Service reminds taxpayers that there are specific guidelines to be followed when deducting travel, entertainment and gift expenses**.**

In order to educate taxpayers regarding their filing obligations, this fact sheet, the eighth in a series, explains the rules for deducting these expenses. Travel, entertainment and gift expenses account for just part of the overstated adjustments, deductions, exemptions and credits that add up to $30 billion per year in unpaid taxes, according to IRS estimates.

In general, taxpayers may deduct ordinary and necessary business-related expenses for traveling away from home, entertaining clients and customers and giving gifts to customers, employees and others with whom they have a business association. An ordinary expense is an expense that is common and accepted in the taxpayer's trade or business. A necessary expense is one that is appropriate for the business.

Taxpayers who deduct these expenses must exclude personal expenses when computing their deductions and must have documentation for the expense, including statement of the business purpose, names of the persons being entertained, date and location. In addition, generally only 50 percent of business meal and entertainment expenses can be deducted.

## Travel

Taxpayers who travel away from home on business may deduct related expenses, including the cost of reaching their destination, the cost of lodging and meals and other ordinary and necessary expenses. Taxpayers are considered "traveling away from home" if their duties require them to be away from home substantially longer than an ordinary day's work and they need to sleep or rest to meet the demands of their work. The actual cost of meals and incidental expenses may be deducted or the taxpayer may use a standard meal allowance and reduced recordkeeping requirements. Only actual costs for lodging may be claimed as an expense and receipts must be kept for documentation. Expenses must be reasonable and appropriate; deductions for extravagant expenses are not allowable. More information is available in Publication 463, Travel, Entertainment, Gift, and Car Expenses.

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**Entertainment**

Expenses for entertaining clients, customers or employees may be deducted if they are both ordinary and necessary and meet one of the following tests:

- Directly-related test: The main purpose of the entertainment activity is the conduct of business, business was actually conducted during the activity and the taxpayer had more than a general expectation of getting income or some other specific business benefit at some future time.
- Associated test: The entertainment was associated with the active conduct of the taxpayer's trade or business and occurred directly before or after a substantial business discussion.

Publication 463 provides more extensive explanation of these tests as well as other limitations and requirements for deducting entertainment expenses.

**Gifts**

Taxpayers may deduct some or all of the cost of gifts given in the course of their trade or business. In general, the deduction is limited to $25 for gifts given directly or indirectly to any one person during the tax year. More discussion of the rules and limitations can be found in Publication 463.

**Further Information**

Further information is available in IRS Publication 463, Travel, Entertainment, Gift, and Car Expenses; Publication 535, Business Expenses; and Publication 552, Recordkeeping for Individuals.

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